



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0429	Title:	Revise medicaid funding principles
Primary Sponsor:	Sesso, Jon C	Status:	As Introduced

- | | | |
|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2007 Difference</u>	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:					
General Fund	\$364,174	\$2,185,045	\$2,323,527	\$2,462,938	\$2,610,715
Federal Special Revenue	\$795,986	\$4,775,915	\$5,055,091	\$5,358,396	\$5,679,900
Revenue:					
General Fund	\$0	\$0	\$0	\$0	\$0
Federal Special Revenue	\$795,986	\$4,775,915	\$5,055,091	\$5,358,396	\$5,679,900
Net Impact-General Fund Balance	<u>(\$364,174)</u>	<u>(\$2,185,045)</u>	<u>(\$2,323,527)</u>	<u>(\$2,462,938)</u>	<u>(\$2,610,715)</u>

Description of fiscal impact:

This bill which requires priority for provider treatment recommendations could have direct, increased fiscal impact on the way the Department of Public Health and Human Services administers its Medicaid pharmacy program.

FISCAL ANALYSIS

Assumptions:

- The Federal Medical Assistance Percentage (FMAP) is based on the following:
 - State Fiscal Year 2007 is 31.39 percent state/68.61 percent federal
 - State Fiscal Year 2008 is 31.39 percent state/68.61 percent federal
 - State Fiscal Year 2009 is 31.49 percent state/68.51 percent federal
 - State Fiscal Year 2010 is 31.49 percent state/68.51 percent federal
 - State Fiscal Year 2011 is 31.49 percent state/68.51 percent federal
- Prior Authorization Program: The Department of Public Health and Human Services (DPHHS) estimates a loss annually in prospective savings through the prior authorization program from the cost savings report for Medicaid Drug Prior Authorization Program. Annualizing cost savings based on denials where evidence based medicine shows no clinical advantage of one Rx over another. The loss is estimated for FY 2008 at \$1,440,468 assuming a 6 percent increase per year the loss for FY 2009 would be \$1,526,896, for FY2010, \$1,618,510, and for 2011, \$1,715,620.

3. Mandatory Generic Medication Program: The DPHHS estimates a loss in the mandatory generic medication program savings, based on prospective drug utilization review (DUR) edits where the point of sale claims processing system denied payment of a brand medication where a generic substitution was available. The Management report used for the assumption (M3000RA January 2006 – December 2006: edit 4982). The loss is estimated for FY2008 at \$1,784,627, assuming a 6 percent increase per year the loss for FY 2009, \$1,891,705, FY 2010, \$2,005,207, and for FY 2011, \$2,125,519.
4. Supplemental Rebates: The DPHHS estimates the loss in supplemental rebates annually based on the amount collected for the Preferred Drug Lists (PDL) rebate for FY 2006 \$3,324,907 assuming a 6 percent increase per year, FY 2008 is estimated to have a loss in supplemental rebates of \$3,735,865, FY 2009, \$3,960,017, FY 2010, \$4,197,618, and FY 2011, \$4,449,475.
5. Based on the immediate effective date, there are estimated to be \$1,160,160 in FY 2007 for the months of May and June 2007.

	<u>FY 2007 Difference</u>	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>					
FTE	0.00	0.00	0.00	0.00	0.00
<u>Expenditures:</u>					
Benefits	\$1,160,160	\$6,960,960	\$7,378,618	\$7,821,334	\$8,290,615
<u>Funding of Expenditures:</u>					
General Fund (01)	\$364,174	\$2,185,045	\$2,323,527	\$2,462,938	\$2,610,715
Federal Special Revenue (03)	\$795,986	\$4,775,915	\$5,055,091	\$5,358,396	\$5,679,900
TOTAL Funding of Exp.	<u>\$1,160,160</u>	<u>\$6,960,960</u>	<u>\$7,378,618</u>	<u>\$7,821,334</u>	<u>\$8,290,615</u>
<u>Revenues:</u>					
General Fund (01)	\$0	\$0	\$0	\$0	\$0
Federal Special Revenue (03)	\$795,986	\$4,775,915	\$5,055,091	\$5,358,396	\$5,679,900
TOTAL Revenues	<u>\$795,986</u>	<u>\$4,775,915</u>	<u>\$5,055,091</u>	<u>\$5,358,396</u>	<u>\$5,679,900</u>
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>					
General Fund (01)	(\$364,174)	(\$2,185,045)	(\$2,323,527)	(\$2,462,938)	(\$2,610,715)
Federal Special Revenue (03)	\$0	\$0	\$0	\$0	\$0

Technical Notes:

1. This bill could have a direct impact on the way the DPHHS administers its Medicaid pharmacy program. Federal Law as provided for in Title XIX of the Social Security Act, Section 1927, 42 U.S.C.1396r-8, allows State Medicaid programs to use Preferred Drug Lists (PDL) and Prior Authorizations (PA) to manage the prescription drug program. The PDL and to some extent the PA programs use evidence based reviews in the decision making process.
The Department also utilizes a mandatory generic medication program. Considering that there is no meaningful difference between a brand and a generic medication, this cost savings program could be in jeopardy. The DPHHS has an average generic utilization rate of approximately 58 percent while consuming only 21 percent of the annual drug spend. Brand name drugs make up 31 percent of the utilization rate while accounting for 71 percent of the drug spend. When evidence-based reviews conclude there is no meaningful difference between treatments the DPHHS then bases its decision on the medications which present the best value for the state.

2. Even though the lead-in to this section uses the term “shall consider” it is likely to be interpreted in such a fashion that a greater burden of proof, such as “clear and convincing” evidence would be required to demonstrate that a recipient’s medical provider is clearly wrong. For example, the DPHHS will no longer be able to rely upon a decision of the drug formulary committee as to which drugs should be approved or eliminated from the Medicaid reimbursement for certain conditions. Nor, would the DPHHS be able to adopt a general rule which may indicate that drug treatment and therapy but not surgery would be reimbursed by Medicaid. It is almost impossible to estimate the fiscal impact of this bill beyond pharmacy costs, but there is a potential, undefined fiscal impact.

Sponsor’s Initials

Date

Budget Director’s Initials

Date